The Double Bottom Line:

Investing in California's Emerging Markets

IDEAS to ACTION

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The Double Bottom Line: Investing in California's Emerging Markets - Ideas to Action

In May 2000, the State Treasurer's Office launched a major public policy initiative, ***The Double Bottom Line: Investing in California's Emerging Markets***, to direct investment capital – through state programs and the State's pension and investment funds – to spur economic growth in those California communities left behind during the economic expansion of the past decade. The initiative builds on the Treasurer's 1999 ***Smart Investments*** report which noted that the growing chasm between the "two Californias" – one of economic success and one of struggle – will dim the State's long-term economic prospects if action is not taken.

The Double Bottom Line report and policy initiatives mobilize the powerful instrument of financial capital in new and innovative ways, consistent with the highest fiduciary standards, to respond to the challenges of widening economic disparity. The programs and policies outlined seek to achieve the "double bottom line" goals of strong investment returns and broadened economic opportunity.

Since the launching of ***The Double Bottom Line*** initiative, the Treasurer's Office has proceeded on a number of fronts to implement the programs outlined in the report (full copies of ***The Double Bottom Line: Investing in California's Emerging Markets*** and ***Smart Investments*** may be found on the web at www.treasurer.ca.gov).

The following initiatives, implemented since the release of these reports, mark a fundamental shift in state policies, directing more than $12 billion in state public program resources and investment capital over a three year period in pursuit of the policy goals outlined in these two reports.

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Investment Initiatives

- **$1 Billion in Home Loans for Californians Produces Strong Yields for State**

  One billion dollars has been committed by the State Treasurer's Office to purchase home loans made to low and moderate-income Californians or in low and moderate-income neighborhoods. The purchase of securitized Community Reinvestment Act loans provides new capital to lenders, allowing them to make additional loans to California homeowners.

  The purchase, through April 2001, of $680 million in mortgages by the State's Pooled Money Investment Account (PMIA), is providing competitive yields to the PMIA, while helping to stabilize neighborhoods through increased homeownership. Standing behind the securities are Fannie Mae and Freddie Mac, with combined assets of over $1 trillion.

- **Over $1 Billion Invested in Urban Communities**

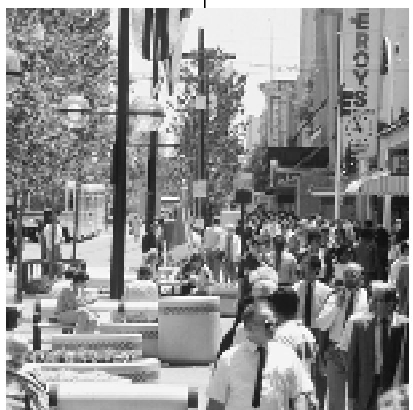
  As a member of the boards of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the State Treasurer has urged greater investment by the funds in real estate development within California's urban communities, consistent with the funds' fiduciary obligations.

  CalPERS has added an urban core investment initiative to its Real Estate Portfolio and has allocated $700 million, as of May 2001, in new commitments to urban real estate ventures targeted to California. Also, CalSTRS has moved forward to create an urban real estate investment program resulting in an allocation of $750 million. Both investment programs are designed to give the pension funds market rates of return, while creating investment and economic activity in California's urban neighborhoods.

- **Investment in Business Enterprises in Communities of Economic Need**
  In May 2001, CalPERS approved the California Initiative, a $500 million investment fund targeted to businesses locating and expanding in underserved communities – with the double bottom line goals of achieving risk adjusted market returns for the pension system, while broadening economic opportunity. The initiative has been structured to engage strong private sector partners and to leverage additional capital investment.

- **Increased State Deposits in California Community Lending Institutions**
  The State Treasurer's Office has put more of the taxpayers' money – managed through the PMIA – to work here in California by increasing deposits of State funds in community banks, savings and loans, and credit unions. The program assures a yield to the State that is above the Treasury Bill rate, and deposits are more than fully collateralized. The State deposits provide lenders with funds to boost small business and home mortgage lending in California communities.

  From January 1999 through April 2001, the Treasurer's Office deposited an additional $2.7 billion in California financial institutions. During the same period, the number of participating lenders increased from 35 to 124.



Under the new system, projects are prioritized based on public policy objectives that target resources to lower income communities, support community revitalization, and leverage public dollars.

- **Depositing Public Funds in Financial Institutions Committed to Community Reinvestment**
  Assembly Bill 2708 (Wesson), proposed by the State Treasurer's Office and signed into law in September 2000, provides incentives for financial institutions to invest in economically distressed neighborhoods by requiring State and local governments to deposit their funds in secure financial institutions that are investing in lower income communities.

- **Securitized Small Business Loans**
  Through June of 2001, the State's PMIA has purchased over $150 million in California-only securitized small business loans with an emphasis on purchasing loans that have been made in areas of the State that continue to struggle economically. These securities provide the State with a higher return than the overall PMIA yield and carry a federal guarantee. This program encourages a continuous stream of capital for small business lending in California.

Community Development Initiatives

- **Extra Credit Teacher Home Purchase Program**
  The Extra Credit Teacher Home Purchase Program was adopted in January 2000 by the California Debt Limit Allocation Committee (CDLAC), chaired by the State Treasurer. This program will help more than 4,000 teachers and principals, willing to serve in low-performing schools, purchase a home. Extra Credit provides a credit against taxes worth approximately $37,000 over the life of a 30-year, $150,000 mortgage – with annual savings of up to $1,800. (Local agencies administering the program may

opt to provide low-interest mortgages in lieu of tax credits.)

As of May 2001, CDLAC has awarded over $160 million in funding to nine local jurisdictions which have matched state-awarded allocations with local homeownership assistance (such as assistance for down payments and closing costs) of at least $7,500 per homebuyer.

- **"Double Bottom Line" Criteria Adopted for Low-Cost Local Infrastructure Loans**
  The State Treasurer's Office advocated for a new set of criteria for awarding more than $1.4 billion in low-interest loans for local infrastructure projects at the California Infrastructure and Economic Development Bank, where the State Treasurer sits as a board member. The new rules reward projects that help revitalize economically struggling communities and neighborhoods.

- **Awarding of Low-Cost Financing Based on "Double Bottom Line" Goals**
  The California Debt Limit Allocation Committee, chaired by the State Treasurer, adopted new rules for the allocation of over $2 billion annually in low-cost financing for affordable housing, pollution control, job creation, and student loans. The new allocation rules replace a "first come, first serve" allocation method. Under the new system, projects are prioritized based on public policy objectives that target resources to lower income communities, support community revitalization, and leverage public dollars.

Financing of environmental assessment and remediation is a critical step in returning brownfield sites to productive use and in revitalizing economically struggling neighborhoods.

- **Cleaning Up Contaminated Brownfield Sites**
  Senate Bill 1986 (Costa), proposed by the State Treasurer's Office and signed into law, enables the California Pollution Control Financing Authority (CPCFA), chaired by the State Treasurer, to finance environmental assessment and remediation of brownfields – contaminated sites in the midst of urban and rural communities. These properties – estimated to be in the tens of thousands across California – not only pose environmental and health risks, but also represent underutilized economic assets in local communities.

  Financing of environmental assessment and remediation is a critical step in returning brownfield sites to productive use and in revitalizing economically struggling neighborhoods. The first round of funding for CPCFA's brownfields program will be awarded in 2001.

- **Community Revitalization Grant Program Leverages Reinvestment Capital**
  Assembly Bill 779 (Torlakson), sponsored by the State Treasurer's Office and signed into law in September 2000, authorizes the California Pollution Control Financing Authority, chaired by the State Treasurer, to make grants to local communities to create sustainable community revitalization programs that leverage private sector and foundation investment, as well as State and Federal funding. These grants will provide communities with the capacity to access needed and available public and private capital resources.

- **Increased Aid to Community Health Clinics**
  The California Health Facilities Financing Authority (CHFFA), chaired by the State Treasurer, provides financing for health facilities and clinics in California. The Help II Loan Program – which provides low-interest (3 percent) loans to community clinics serving low-income neighborhoods – was recently expanded with $10 million in additional funding. In 2000, the Cedillo-Alarcon Community Clinic Investment Act provided an additional $50 million to CHFFA to make

grants to community clinics to expand health services for low-income families, recognizing that basic services, such as healthcare, are a key element of any effective strategy to bridge the growing gap between rich and poor in California.

- **Tax Credit Program Reformed to Assure Affordability, Achieve Community Revitalization Goals**

The California Tax Credit Allocation Committee, chaired by the State Treasurer, adopted a new system for awarding $550 million annually in state and federal tax credits for the construction and rehabilitation of affordable rental housing, replacing the previous administration's lottery system. The reformed program establishes a point system that, among other things, prioritizes projects in struggling neighborhoods where the housing is part of a comprehensive revitalization effort, and projects that meet a set of sustainable development goals – for example, projects within walking distance of transit, schools, parks, and shopping. ■